The Evolution of the Consumer

By Arthur Feiler

IN THE beginning, on the sixth day of His work, God created man—as a consumer. And God blessed him, and said: "Behold, I have given you every herb bearing seed, which *is* upon the face of all the earth, and every tree, in the which *is* the fruit of a tree yielding the seed; to you it shall be for meat. . . . And the Lord God planted a garden eastward in Eden; and there he put the man whom he had formed. And out of the ground made the Lord God to grow every tree that is pleasant to the sight, and good for food." Those were the paradisean days, before the serpent beguiled the woman and Adam and Eve ate of the tree of the knowledge of good and evil. From that time on, God's curse has been on the world: "In the sweat of thy face shalt thou eat bread." Out of the knowledge of good and evil grew—the producer. And the ground ever since has brought forth "thorns also and thistles."

Nevertheless, through long, long ages, the largest part of mankind lived in such a way that, in Herbert Spencer's wording, working really was for life, instead of life for working.

When Robinson Crusoe was shipwrecked and cast on his isolated island he immediately experienced the basic principles of economics. He realized that he had to divide his time between work and leisure: that the more he wanted to consume the more leisure he had to forfeit; that he had to limit his present consumption if he were to accumulate savings—if he wanted greater security by having a reserve for the future, or if he wanted to work more easily and more efficiently in the future by devoting his present work to manufacturing tools and implements. Production, consumption, and the formation of capital were combined in him. And his was the freedom of choice, whether he preferred the one or the other or a more ample enjoyment of leisurely life.

The Consumer as Producer

As a matter of fact, millions and millions of independent, self-supporting farmers have long lived (and do so to a large extent even today) in a very similar manner. "It is a poor farmer who buys what he himself could produce on his farm"—these words of an old Roman author were, before the factory system came into existence, practically obeyed by peasantry throughout the Western World and far beyond. The family on the farm works for its own food. In olden times it did, in addition, its own spinning and weaving and practiced many other manual skills. And the American farmer-pioneer, who builds his house by the combined work of the whole family and with the help of his neighbors, and who is his own carpenter and his own mechanic, preserves that tradition.

In all these simple economic relations, the consumer is his own main producer and vice versa. Not so very long ago, this actually was the predominant form of social organization. The manorial system of the middle ages, for instance, was, in principle, the same. The manor comprised a larger number of people than the individual farm, with a greater division of labor among them. But combined they formed a community of life, of work and consumption, with very few contacts with the outer world. The natural relationship that production is

done for consumption, present or future, but is not an end in itself, still prevailed undisturbed. And it remained so in the handicraft economy, where the craftsman worked to the order of his customer, the consumer. In such a system it does not make much difference whether one gets his reward by barter or in cash. The predominant rôle of the consumer and of his demand is manifest here in any case.

RELATIONSHIP OF CONSUMPTION AND PRODUCTION

The separation of the consumer and the producer is the product of the market economy which for its part emerged from the new techniques of production, transportation, and communication, from the expansion of human activity by the discovery of formerly unknown parts of the world, and from the growth of the population on the earth. The industrial revolution in the Western World, resulting from these developments, has also revolutionized the relationship between production and consumption.

In the market economy a complete transformation of all former social connotations has taken place. The market converts goods into commodities, needs into demand, satisfaction of needs into income, means of production into capital, productivity into rentability, yield into profit. Not only the identity, but even the personal relations between consumer and producer are almost entirely destroyed. Instead, anonymous demands of anonymous consumers must be satisfied by anonymous commodities of anonymous producers. And they are to meet in the anonymous market, where only figures (representatives of anonymous amounts of money) are of weight, where all individual estimations of values and utilities have been replaced by the anonymous dictator, price.

What has become of the consumer in that entirely changed economy? First of all, the consumer as a whole was permitted to consume a much greater amount of material production. When the terrific initial devastations of the industrial revolution had been overcome, the latter resulted in the possibility of maintaining an immensely increased number of people not at a degraded but at a remarkably raised material standard of living. And secondly, the consumer was allowed to receive a rent: as a counterpart to the "differential rent" of the producer he may enjoy the "consumer's surplus"—at least as far as the dictator price really permits him to stay in the market as a consumer.

The uniform price of a uniform, comprehensive market excludes from the market the weakest producers and the weakest consumers, those who cannot afford to sell or to buy at the market price. But that market price, on the other hand, is in a great many cases and for a great many commodities lower than the one which a great many consumers would be ready to pay if they were compelled to do so. The savage, for instance (and a Robinson Crusoe likewise), puts a high value on a firestone. Although fire is as valuable for him, modern man, on the contrary, can get matches for a few cents, and the American may even obtain them for nothing. This is, as described by Alfred Marshall, the benefit which the consumer in the market economy may derive from his opportunities or his environment.

However, the main point still remains to be discussed, namely, that deep as are the changes of all socio-economic relations by the market economy, the directive principle has been kept intact: the predominant rôle of the consumer whose demand determines the size and the course of the production.

THE CONSUMER'S POWER

A producer who would deny this predominance of the consumer may test his opinion by producing, for example, shoes of a size which no one can wear or for left feet only—he would be convinced very soon by losing his money. In truth, the power of the consumer—that is, the consumer's theoretical, potential, unknown, and unconscious rule over the producer—has been increased immensely by the market system. As long as the consumer produced for himself, it was only he who had to obey his orders. Now, his orders must be executed by the whole array of separate producers. These orders are issued by his purchases: what he does not buy, cannot be produced at all. And that is true not only for the finished goods he really consumes. If a consumer buys a suit, he exercises a demand for all the manifold materials and accessories used for the production of the suit. The producers of the wool, the cotton, the silk, the rayon, and the buttons, which make up the suit, depend upon him. They can produce only if they satisfy his demand.

Thus, by buying a commodity, the consumer practically directs simultaneously the agents of production and the way in which they may be used and combined, the land and the factories and the machines and the means of transportation, the "capital," and the human agents also. All of them, the entrepreneurs, the technicians, the employees and the investors are working to his order, at his command; they are employed by him. He really employs them all—the farmers, the manufacturers, the laborers, the merchants, and even the savers. He employs them at a piece-work wage, determining by the price he pays for his consumption also the price which they may receive for their work, wages and salaries, and profits and interest, allowing in every stratum only the efficient producer (the marginal producer) to survive. Indeed, the whole system of the market economy is based on this subtle device.

Such is the theoretical predominance of the consumer. But the unfortunate creature knows very little about it and usually he is even less inclined to use it. Sometimes he does—for instance, when he boycotts the production of certain countries whose political system (Nazi Germany) or whose political actions (Japan) he dislikes, or when he obeys the admonitions of picket lines or of black lists against sweatshops for the protection of the underdog. As a rule, he does not. And the reason is, that "two souls, alas! reside within his breast, and each withdraws from, and repels, its brother."

For the consumer is, normally, at the same time a producer. And, normally, he regards his producer's interests as much more important than his consumer's interests.[1] He is much more inclined to apply all means to increase and protect his nominal income as a producer than to defend his real purchasing power as a consumer. He is, for instance, much more ready to campaign for a higher import duty on his product than for lower import duties on the materials, the half finished goods, or the goods at large which he has to buy. He finds it easier, and also more profitable, to attain that producer's protection than help for his needs as a consumer. And that is only one instance of a general attitude. The subjection of the consumer and the actual predominance of the producer—in public opinion, in the economic policy of the states, and in the whole economic life—are the result.

[1] Cf. Arthur Feiler, "The Consumer in Economic Policy," *Social Research*, 1:287–300 (1934).

That might seem to be the end of the story, but it is not. Life in any respect is much too diversified to be pictured only in black and white or to be described by one short formula. Above all, there are always new developments and never an end. There is still an evolution of the consumer—and of the producer as well—to be discussed.

CONSUMERS' COÖPERATION

In 1844, some scores of horribly poor English weavers in Rochdale (near Manchester) started a consumer's cooperative shop for buying their scanty household necessities. It was not the first attempt of consumer's coöperation for common buying; several attempts in that line had been made before and had disappeared. But the Rochdale Society of the Equitable Pioneers was the first venture on a much broader road. Those distressed weavers truly started from the vision of a society that was in reality, not only in theory, to be based on the command of the consumer.

The consumer, not the manufacturer-producer, not the entrepreneur-capitalist, should be the real master. They themselves, as consumers, were to be their own shopkeepers, their own merchants, their own landlords, their own employers, their own producers, and also their own government, in a coöperative colony. Therefore, every coöperator-consumer was given one equal vote in the Society, irrespective of the number of his shares. Profits of the Society were to be distributed among the consumer-members as "dividends," not on their capital shares but in proportion to their purchases. These two entirely new principles made for the march of the Rochdale Pioneers in many countries.

Consumers' coöperatives, following their example, started with retail stores for the daily needs of their members. But a great many of them went much farther. They erected coöperative wholesale societies, eliminating the middlemen between their retail stores and the manufacturers. They proceeded to develop their own factories and sometimes even their own farms for producing an increasing number of the commodities sold by their retail stores, to develop their own mercantile marines for transporting them, to develop their own banking system for collecting the savings of their members and using them for the benefit of their common enterprises. There have been, and are, many followers of the movement [2] who are faithfully convinced that it will eventually lead to a new transformation of society as a whole, to the building up of a coöperative society, based upon the consumer, where the consumer really commands production as the real owner of the producing plants.

Thus far they have not reached that goal. As a matter of fact, they are farther from it than it might have seemed some decades ago. And one must even wonder whether a great movement like the consumer's coöperative would have come into existence in our day had the foundation not been laid a century ago in an entirely different social, political, and religious atmosphere. Its basis was a spiritual attitude which valued freedom more than security, self-help more than state-help, and self-organization more than governmental regulation. "To many millions let me furnish soil, though not secure yet free to active toil. . . . And such a throng I fain would see—stand on free soil among a people free."

The following is the ultimate confession of the old Faust: "Yes, to this thought I hold with firm persistence;

[2] Cf. Horace M. Kallen, *The Decline and Rise of the Consumer: A Philosophy of Consumer Coöperation* (New York and London: Appleton-Century, 1936).

the last result of wisdom stamps it true: He only earns his freedom and existence, who daily conquers them anew." This conviction was also living in the Equitable Pioneers, although Charles Howarth, their "lawyer," is very likely never to have read Goethe. But he knew the Bible. And he knew Robert Owen.

THE SOCIAL PROBLEM OF PRODUCTION

Since then the general temperature has cooled down remarkably by a so-called realism which likes to deride moral impulses, by actual economic developments, by skeptical experiences, and also by the powerful advance of the producer against the consumer. First of all, the consumer's coöperatives [3] have not yet solved the social problem of production; the workers in their plants regard the coöperatives (even if they are their members) as employers exactly in the same way as other employers. They are more interested in high wages than in cheap production, and they sometimes even try to "exploit" the coöperative plants by demanding higher wages than are received in other plants, thus endangering their ability to compete with privately owned productive enterprises.

The consumer-members, on the other hand, are often dissatisfied when the "profits," earned for them by the coöperatives, are not distributed among them as "dividends" but are kept and reinvested for coöperative expansion. Moreover, they are often struggling with themselves, whether they prefer the standardized and centralized supply of the coöperative stores or the more diversified and more easily accessible private stores.

The consumer's organization can claim the merit of having provided the consumer to a considerable extent with that kind of knowledge which is the necessary presupposition of a free market and is nevertheless very often lacking: the knowledge of the quality of the commodities, of their value in use, of the real market conditions, and the like. They are thus the instructors whom the consumers hire for educating themselves in the arts of consumption.

Furthermore, they have cheapened the costs of distribution. And, especially at the beginning, they were able to diminish the costs of important necessities as a whole by introducing standardized brands and thus making possible large-scale production where it had not been possible before —for instance, bread. Later on these advantages were compensated by private modern forms of distribution—for instance, department stores, chain stores, mail order houses, and so on—which also made possible the mass production of an even larger list of consumable goods. And thus, again, the producer was in the saddle.

THE STRUGGLE FOR POWER

This latest evolution of the producer is characterized by his intense struggle for power. The result of this struggle may best be summarized by saying that the producer's longing for power was contested only when in reality different groups of producers were fighting with one another for supremacy—while the producer as such remained victorious to an amazing extent, practically without interference, as far as the plain consumer was concerned.

That is to say, the producer understands perfectly the importance of low prices when he, as a producer, is the consumer. When he has to pay for what he considers to be his costs of production, he is a very efficient consumer indeed. Thus even the coöperative

[3] Cf. Robert Wilbrandt, "Kapitalismus und Konsumenten," *Grundriss der Sozialoekonomik* (Tübingen, 1927), Sec. IX, Part II, pp. 411 ff.

movement has spread with much greater success among the producers than among the consumers—coöperatives for the common sale of the products, and producers' coöperative buying associations as well. The main case, the entrepreneur as consumer of human labor, need only be mentioned. When wages and salaries are at stake, the buying as well as the selling is clearly done by "producers." And these producers, employers and employees as well, do certainly know that it is a fight.

The consumer, on the other hand, is in the eyes of the producer simply the one who is in duty bound to buy. For the fulfillment of this duty, the only justification for his existence, the consumer must be educated. Consequently, the producer has taken this burden, in addition to all his other burdens, on his shoulders. The most subtle arts of advertisement, of propaganda, of high-pressure salesmanship, are used for this purpose. And in some cases the producer goes so far as to convert the consumer into his partner, by selling shares of the producing plant to the consumer and thus appealing to his secret producer's instincts—to be sure, without selling more than a minority of the shares and therefore without endangering the real power of the real producer.

Generally, the producer likes to call his educational efforts by the mellifluous name "service." But what truly may be service in some cases is nothing but a slogan in others—a slogan which for itself must only serve as an additional part of efficient advertisement. Then, the only purpose is to talk the consumer into consumptive demand, to suggest to him needs which he feels are imperative, to influence his mind, and to direct his buying.

The frequent change of fashions, artificially managed by the producers who want to sell their novelties, is a well known example. Not to be antiquated but always to keep up with the Joneses, and therefore to buy continuously, again and again—that is how the consumer must be educated. And, of course, he has to bear the expenses of that education. He has to pay for the service, for the real service and for the slogan. Increased costs of distribution, in spite of all improvements in methods, are the result.

THE PRODUCER AS MASTER

As a matter of fact, in a great many cases the consumer has to pay a real tribute to the producer. That happens when the producer has reached his ultimate power, when he has attained a monopolistic position. Then the producer is really the master. No longer does he work for the consumer at a piece-work wage. He, on the contrary, taxes the consumer. Thus, a new feudalism, a market feudalism, has emerged. Trusts, combines, cartels, trade associations, industrial institutes, and the like, are its means. The joint-stock corporation, which makes the size of the enterprise independent of the wealth of the individual entrepreneur, has done away with all limits for such an expansion.

A new ideology could not fail to accompany this development, the ideology of the "enterprise as such." It has found its manifestation in the separation of management and ownership. There not only the consumer is the forgotten man; the shareholder too is in a position not much better. "Isn't it just too bad that we must throw away year by year so much of our good money to strange people." This statement by the president of a big German corporation, who was complaining about the disbursement of dividends to its shareholders (its real owners!), characterizes the situation.

The enterprise as such must flourish, must grow, must expand. That is what consumers, employees, and investors are asked to live for. This incarnation of production as an end in itself is the latest stage in the evolution of the producer and of the consumer.

But there is still an epilogue, and that is the decisive part of the story. It has been revealed once more by the recent depression, and it proves that the economic law is even stronger than the producer. The economic law will not tolerate being neglected. If it is, it takes its revenge.

The producer should have known that. For it is a truism that the producer may expand his production, raise his prices, increase the costs of distribution, strengthen his power, and subdue the consumer, but that there is one definite limit: the producer must meet the propensity to consume and, first of all, the capacity to consume. For he must sell his products. He therefore needs the consumer. The producer should have learned that. And he should have applied it anew when he introduced modern methods of mass production with a high fixed capital. Before, if he could not sell, he could diminish his losses by dismissing his workers. Now, he cannot dismiss his fixed capital. And the higher this capital is, the higher are his losses by nonproduction.

MASS PRODUCTION AND THE MONOPOLIST

Even the monopolist is liable to this law of mass production. He too must strive not for the highest but for the optimal price, which is the one that allows him the highest profit by the right combination of the price and the amount of his outlet; if he exceeds that optimal price, he is punished by a diminished outlet, by higher costs of production per unit, and by lower profits or even losses in the bulk.

That these simple but unavoidable concatenations have been amazingly overlooked through recent years has best been proved by the investigation of the Brookings Institution concerning production, consumption, and formation of capital in the United States and especially by Harold G. Moulton's concluding volume.[4]

The great benefits of technological progress during the period that ended in 1929 were, mainly by the growth of monopolistic power, withheld from the ultimate consumer because even the slight reduction in wholesale prices, which really took place, was "absorbed in marketing channels." The result was the paradoxical and provoking contradiction between unsatisfied needs of large parts of the population on the one hand and unused productive capacities on the other—not only in times of crisis and depression but also throughout the upswing and prosperity. "At the end of the period (1929), capacity in the several major lines of production was utilized at a range of 70 to 85 per cent. . . . The economic machine operates at the best around 80 per cent of capacity and at the worst at little more than 50 per cent."

Thus the consumer was punished for his inertia. But the producer was punished too: "Had the volume of sales been expanded as a result of price reductions, unit costs would have been reduced and profits might well have been larger." The best way to attain such an expansion is "the gradual but persistent revamping of price policy so as to pass on the benefits of technological progress and rising productivity to all the population in their rôle as consumers." For "we

[4] Harold G. Moulton, *Income and Economic Progress* (Washington, D. C.: The Brookings Institution, 1935).

cannot have the economics of mass production save in an economy of mass consumption."

Here the story ends where it began. God created man as a consumer. And in spite of the evolution of the consumer and of the producer, in spite of all the roundabout ways of production and of all the prolongations of the ways between producer and consumer, the latter—though unaware of the fact and even unwillingly—has retained his decisive rôle. Still, Adam Smith's word remains valid, that the sole end and purpose of all production is consumption.

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